TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 607 - HB 648

March 18, 2015

SUMMARY OF BILL: Makes various changes to the state sponsored health insurance plans for state, local education, and local government employees. Authorizes the State Insurance Committee to gradually reduce the state contribution for dependents of the cost of basic health plans from 80 percent in 2016 to 75 percent in 2017 and 70 percent in 2018. Authorizes the state to deny coverage for a state employee's spouse who is eligible for similar group health insurance through the spouse's employer.

Part-time or seasonal employees, hired after July 1, 2015, who work less than an average of 30 hours per week calculated on an annual basis will no longer be eligible for the state sponsored plan. Part-time employees hired before July 1, 2015, and meet the current eligibility standards of being employed at least 24 months and working 1,450 hours per year will be grandfathered into their current plan.

Extends certain health benefits to retired local government employees, but limits the benefits to any state, local education, local government, or higher education retiree whose employment commenced prior to July 1, 2015, and will grandfather in any employee who returns to state service after July 1, 2015, and did not receive a lump sum payment from the Tennessee Consolidated Retirement System (TCRS) before that date. Grants the State and Local Education Insurance Committees authority to establish a schedule of defined contributions for the coverage described above relating to retired state employees, retired local education employees, and retired employees of the higher education system.

Limits the option of former senators, representatives, governors, and their dependents to retain health benefits through participation in the active or retiree health benefit plan and paying the required contribution to those who were first elected prior to July 1, 2015.

Limits the supplemental medical insurance for retired state employees and teachers who are covered by Medicare benefits, as well as similar benefits that may be provided through a local education agency to retirees, or retired judges, county officials, and employees of TCRS participating employers to those employees whose initial employment with the state or other qualifying employer commences prior to July 1, 2015.

Establishes criteria for quasi-governmental organizations applying to participate in the local government insurance plan after July 1, 2015.

ESTIMATED FISCAL IMPACT:

SB 607 - HB 648

Increase State Expenditures – Not Significant

State Expenditures – Cost Avoidance – Exceeds $50,000

Other Fiscal Impact – Provisions of the bill grant the State Insurance Committee authority to reduce the state contribution for dependents of eligible employees to no less than 75 percent in calendar year 2017 and 70 percent in 2018. If the committee were to choose to reduce the state contribution, the reduced expenditures are estimated to exceed $8,069,100 in FY16-17, $24,207,200 in FY17-18, and $32,279,300 in FY18-19.

Assumptions:

- Based on information provided by the Department of Finance and Administration, Division of Benefits Administration, the annualized enrollment data from February 2013 and 2014 shows the state paid portion for dependent coverage of state/higher education plan members at an 80 percent subsidy rate were:
  - $251,299,760 in 2013, and
  - $265,121,029 in 2014.
- The provisions of the bill will give the State Insurance Committee the authority to reduce the amount of state subsidy to 75 percent in 2017 and 70 percent in 2018. Based on an average of $258,210,395 paid by the state at the current 80 percent rate, the state could reduce the amount paid for dependent benefits, at the discretion of the State Insurance Committee, to:
  - $242,072,245 [($258,210,395/0.80) x 0.75] at a 75 percent subsidy in 2017, and
  - $225,934,096 [($258,210,395/0.80) x 0.70] at a 70 percent subsidy in 2018.
- The possible savings to the state, if the State Insurance Committee chooses to implement the reductions authorized by the bill, would be:
  - $16,138,150 ($258,210,395 - $242,072,245), and
  - $32,276,299 ($258,210,395 - $225,934,096).
- The savings above are based on calendar years because the state health plans are administered on a calendar year. The savings for each fiscal year are estimated to be:
  - $8,069,075 ($16,138,150 / 2) in FY16-17 to account for one-half of 2017, and
  - $24,207,225 [($16,138,150 / 2) + ($32,276,299 / 2)] in FY17-18,
  - $32,279,299 in FY18-19.
- It is assumed that the above savings amounts are a floor and actual savings will be greater.
- The provisions of the bill will reduce the number of part-time employees who are eligible for the state sponsored health plans. Based on information provided by the Division for another piece of legislation, there are approximately 5,513 part-time employees. It is unknown how many of the 5,513 part-time employees currently meet the eligibility requirements, but of those, approximately 102 employees are currently enrolled in the state sponsored health plan. These 102 employees will be able to keep their coverage under the plan. Based on current full-time employee enrollment data and calendar years 2015 and 2016 premium amounts, the estimated cost in FY15-16 for the part-time employees is $1,092,377.

- Based on the small number of part-time employees who currently participate in the state sponsored health plan, it is assumed that reducing the eligibility requirements for future part-time employees will only impact a small number of part-time employees. It is reasonable estimated that any cost avoidance will exceed $50,000 which is approximately five percent of estimated part-time employee costs in FY15-16.
- The retiree health benefits will not be available to any employees hired on or after July 1, 2015, unless grandfathered in due to previous employment. The current state obligation for pre-65 retirees is $1,200,000,000 and Medicare supplement recipients is $154,000,000. The state paid approximately $23,654,700 in 2014 for retiree dependent premiums. By eliminating these benefits, the state will reduce future retiree and Medicare supplemental liabilities. The exact impact this will have is unknown, could have an impact on the state's bond ratings due to the state liabilities reported on the Comprehensive Annual Financial Report.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Jeffrey L. Spalding

Jeffrey L. Spalding, Executive Director

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